

An Avalanche of Money

The Federal Government's Policies Toward First Nations

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Tom Flanagan

ABORIGINAL POLICY

Summary

- Since 2015, the federal government has significantly increased spending on Indigenous Peoples.
- The annual Indigenous budget has almost tripled from 2015 to 2025, growing (in nominal dollars) from roughly \$11 billion to more than \$32 billion.
- In addition, class actions have been settled without litigation, with estimated liabilities reaching \$76 billion in 2023, while specific claims have been settled at a rate four times higher than by the previous government, leading to a significant transfer of land and money to First Nations.
- From 2016 to 2021, the gap in Statistics Canada's Community Well-Being index, which measures the socio-economic well-being for communities across the country, between First Nations and other Canadian communities was reduced from 19 to 16 points. This reduction was due chiefly to an increase in reported income of First Nations people living on Indian reserves.
- Closer analysis shows that this increase in income was due mainly to the Canada Child Benefit (CCB), introduced in 2016. First Nations people benefit relatively more from this new program because they have lower incomes and more children than other Canadians.
- First Nations' Own Source Revenue derived from business activities is increasing less rapidly than government transfers, making First Nations more financially dependent on the federal government.
- Simply increasing money transfers to First Nations does not necessarily produce improvements in measured well-being.
- Improvements in well-being can come from general policies, like the CCB, that are not targeted at First Nations.

Introduction

When the Liberals were elected to a majority government in 2015, their leader, Justin Trudeau, said that the welfare of Canada's Indigenous Peoples was his most important priority (Flanagan, 2018a: 1). And, within the parameters of his Progressive ideology, Mr. Trudeau has indeed made strenuous efforts to promote Indigenous welfare, mainly by directing a cascade of material resources toward Indigenous Peoples. To mention only three of the most expensive examples:

- The annual Indigenous budgetary envelope has almost tripled from 2015 to 2025, going (in nominal dollars) from about \$11 billion to more than \$32 billion (Canada, Department of Finance [DOF], 2024: Chart 6.1), meaning that the federal government now spends more on Indigenous Peoples than it does on national defense.
- The federal Department of Justice has repeatedly settled Indigenous class actions out of court rather than litigate them. The result has been an increase in both budgetary expenditure and contingent liabilities. The latter reached \$76 billion in 2023, leading the Parliamentary Budget Officer (2024) to comment critically upon the financial risk.
- The government has settled specific claims at a rate more than four times faster than the previous Conservative government, leading to significant transfers of land and money to the First Nations who have launched such claims (Canada, DOE, 2024: ch. 6).

The release on March 24, 2024, of the most recent data for the Community Well-Being (CWB) index, based on the 2021 census, provides an opportunity for an empirical check of the effect of all this spending on the welfare of First Nations. To be sure, First Nations people living on reserves make up only 41% of Status Indians¹ (Statistics Canada, 2022a) and fewer than 25% of self-identified Indigenous People. But First Nations on reserve are of special concern because they consistently exhibit the lowest economic indicators of all Canadians and of all Indigenous groups, lower

than Status Indians living off reserve, non-Status Indians, Inuit, and Métis (Canada, 2023b). Hence the justification of focusing on them here, even though some federal spending is also dedicated to other Indigenous groups.

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Before discussing the most recent CWB results, let us look in more detail at the three main streams of federal spending that have grown so rapidly since the Liberals came to power in 2015, and especially over the years 2016–2021, for which the new CWB data will provide a test of effectiveness as measured by the Community Well-Being index.

Budgetary Expenditures

Federal spending on Indigenous affairs accelerated sharply after the Liberals came to power, as shown in figure 1 (Flanagan, 2021: 2). Figure 1, taken from *Budget 2021*, is headed “Investments in Indigenous Priorities,” because “investments” is the new government terminology for what used to be called “expenditures.”

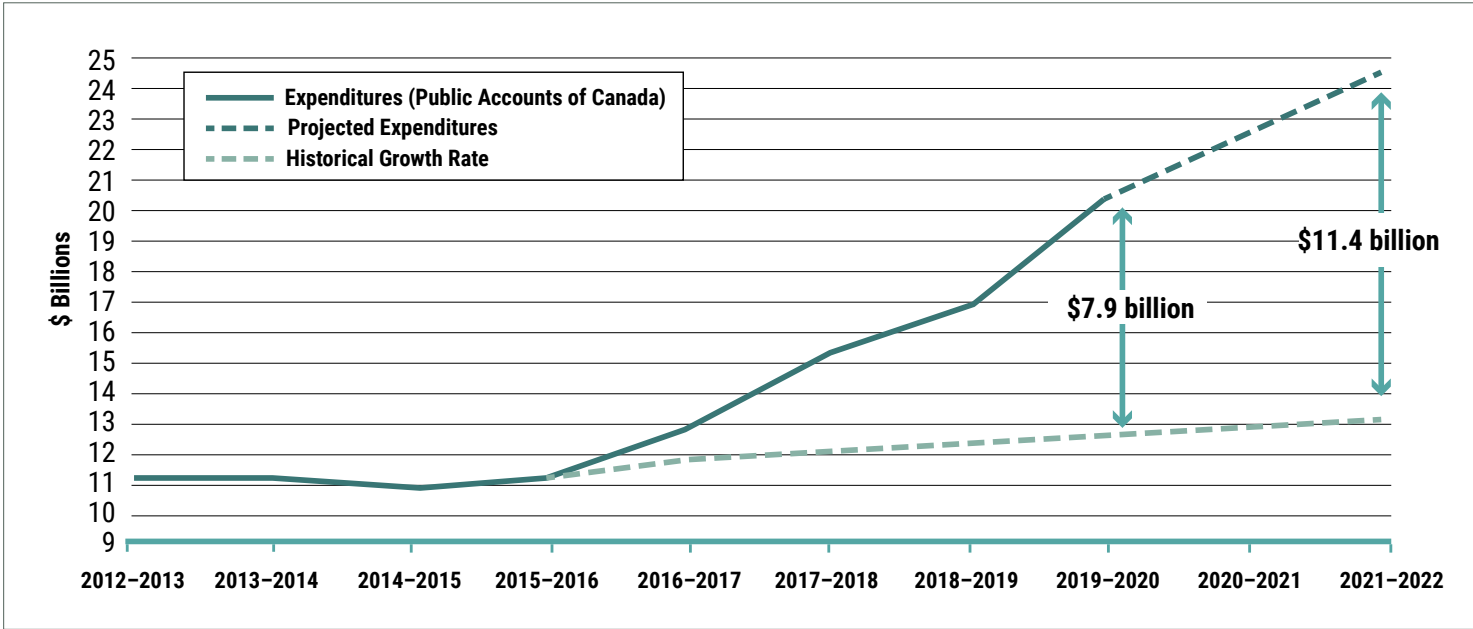
One result of this increase in federal budgetary spending was an increase in the number of federal employees working in the Indigenous area, following several years of declining numbers under Stephen Harper's Conservative government (see table 1).

Specific Claims

Specific claims are those made against the government because of alleged violations of treaties or of the *Indian Act*. When I last did a detailed study of this topic, there had been 450 settlements in the 43-year period from December 12, 1974, through November 15, 2017, for an average of slightly more than 10 a year (Flanagan, 2018a: 8). As of April 5, 2024, an additional 290 settlements had been concluded in the intervening six and a half years (Canada, 2024a), for a pace of about 45 a year, about four times the historic rate. The government has estimated the cash value of these settlements for a similar but not quite identical period at about \$10 billion (Canada, DOE, 2024: ch. 6). This does not include the transfer of land involved in some settlements.

1 Use of the term "Indian": Many Indigenous people in Canada prefer not to describe themselves as "Indians" and view this term as rooted in colonialism and racism. Under the *Indian Act*, the precise legal meaning of the term "Indian" refers to First Nations persons who are entitled to registration. <<https://www.sac-isc.gc.ca/eng/1100100032374/1572457769548>>

Figure 1: Investments in Indigenous Priorities (Actual and Projected), Indigenous Investments: 2012–13 to 2021–22



Source: Canada, DOF, 2021: ch. 8.

Table 1: Federal Civil Servants, 2010–2021

2010	5371
2011	5427
2012	5409
2013	4975
2014	3857
2015	4684
2016	4582
2017	4708
2018	4931
2019	5087
2020	5418
2021	8742

Note: The sharp increase from 2020 to 2021 is related to the creation of two separate departments, Crown-Indigenous Relations and Indigenous Services Canada.

Source: Canada, Treasury Board of Canada Secretariat, 2024.

If the government does not change course, settlements are likely to become even larger and more numerous because of the decision by the Supreme Court of Canada in the *Restoule* case (*Ontario [Attorney General] v. Restoule*, 2024 SCC 27 [CANLII]). The Court held unanimously that the so-called “Augmentation Clause” in the Robinson Huron and Superior Treaties imposed a justiciable obligation on the Crown to increase treaty payments from time to time, correlated with resource development on surrendered land (Supreme Court of Canada, 2024). The wording of the Robinson treaties is unique, so the Supreme Court’s decision will not immediately affect the understanding of other treaties; but the decision shows a new willingness to re-interpret the wording of treaties according to the modern judicial conception of “the honour of the Crown” (Best, 2024). Such re-interpretation of treaties is likely to generate new rounds of specific claims of non-fulfilment.

Class Actions

A somewhat similar situation exists with the various class actions that have been brought against the federal Crown, starting with the harms allegedly caused by Indian Residential Schools, continuing with other forms of education such as

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Table 2: Cost of First Nations' Class Action Settlements Involving Education (in \$Millions)

Class Action	Year	Nominal Value			Measured in 2023 Dollars		
		Individual Payments	Collective Payments	Total	Individual Payments	Collective Payments	Total
Residential Schools	2006	\$4,800	\$500	\$5,300	\$6,918	\$721	\$7,639
Newfoundland	2016	\$50	?	\$50	\$61	?	\$61
Day Schools	2019	\$1,470	\$200	\$1,670	\$1,700	\$231	\$1,931
Day Scholars	2021	\$150	\$50	\$200	\$167	\$56	\$222
Boarding Home	2022	\$2,200	\$50	\$2,250	\$2,288	\$52	\$2,340
Band Reparations	2023	\$0	\$2,800	\$2,800	\$0	\$2,800	\$2,800
Totals		\$8,670	\$3,600	\$12,270	\$11,134	\$3,859	\$14,993

Source: Flanagan, 2023: 9.

Table 3: Reparations in Areas Other than Education (in \$Millions)

Subject	Year	Nominal Value			Measured in 2023 Dollars		
		Individual Payments	Collective Payments	Total	Individual Payments	Collective Payments	Total
"Sixties Scoop"	2017	\$750	\$50	\$800	\$908	\$61	\$968
Drinkable water	2021	\$1,500	6,400	\$7,900	\$1,665	\$7,104	\$8,769
Foster care	2022	\$23,000	20,000	\$43,000	\$23,920	\$20,800	\$44,720
Totals		\$25,250	\$26,450	\$51,700	\$26,493	\$27,965	\$54,457

Source: Flanagan, 2023:13.

day schools, and spreading to non-educational topics such as clean water and child welfare. Immediately upon coming to power, the Liberal government took a new stance toward these claims, later formalized in Justice Minister Jody Wilson-Raybould's 2019 practice memo, which directed Justice Department lawyers to negotiate rather than litigate (Canada, 2021). The value of payments approved for individuals from 2006 to 2023 was about \$34 billion in 2023 dollars. Tables 2 and 3 summarize the class actions and their costs as of 2023 (Flanagan, 2023: 9, 13). Note that the cost of the foster care settlement has increased substantially since first announced in 2023 (Passafiume, 2024).

The CWB Index

Let us review how the CWB index is designed and calculated. This discussion is very similar to what I published five years ago (Flanagan, 2019) but is included here for convenience. Some readers may not need to read it or may wish to go over it quickly.

The CWB index is a measure of standard of living and quality of life for all Canadian communities, including First Nations on reserve. It is calculated by researchers in Indigenous Services Canada, based on Statistics Canada census data. The time series extends back to the 1981 census,

with updates every five years except for the 1986 census, which did not include questions on housing. It is calculated from the Census of Population, except for 2011 when it was based on the voluntary National Household Survey, which was sent to every household in First Nations communities. The First Nations' response rate that year was 82%, higher than for other Canadian households, so the use of a voluntary survey in 2011 is not a major problem for the time series.

The CWB aggregates four dimensions of well-being— income, education, labour force participation, and housing. Census data for income are logarithmically transformed; expressing income in log form means that, as income rises, the contribution of an additional dollar declines. This reduces the impact of high incomes, on the assumption that attainment of basic sufficiency is more important to well-being than very high individual income. Income data are also adjusted for inflation, so that inflationary increases over time do not create artificial improvement in the index. Each of the other three dimensions is measured by two sub-variables, which are then amalgamated into a single score. Measures of all four dimensions are normalized, equally weighted, and added together to form an index varying from zero to 100 (Canada, 2024b).

The CWB, of course, is not the last word about well-being. For example, John Richards has argued that it uses non-standard definitions of employment (Richards, 2020). Moreover, it does not incorporate measures of personal security, health, language retention, cultural practice, environmental integrity, religious faith, subjective happiness, or many other things that might contribute to quality of life. But it is hard to argue against the importance of income, jobs, education, and housing. Indigenous leaders frequently state that their people desire these four things and need more of them. So, even if the CWB is not the last word about well-being, it offers the only available baseline and time series for what almost all Canadians, including First Nations, hope to enjoy in a modern society.

Another feature of the CWB is that it measures the aggregate well-being of communities, not of individuals. The CWB provides information about the approximately 40% of Registered or Treaty Indians who live on reserves, but not about the 60% who live off reserve. It is not an indicator of

the well-being of all First Nations people or of Indigenous people in general. However, it is well-known that the standard of living of First Nations people living on reserve is lower than that of other Indigenous people or of First Nations people living off reserve. This lower standard of living includes income, housing, education, health, and life expectancy (Feir and Akee, 2019), as well as other characteristics. Hence the focus on reserve communities is justified for purposes of both research and public policy because, even though there are notable exceptions, First Nations people living on reserve are on average the worst-off segment of Canadian society.

2021 CWB Results

Figure 2, taken from the latest report (Canada, 2024c), shows the trend lines of CWB results from the time the CWB index was first calculated in 1981 through the most recent census in 2021.

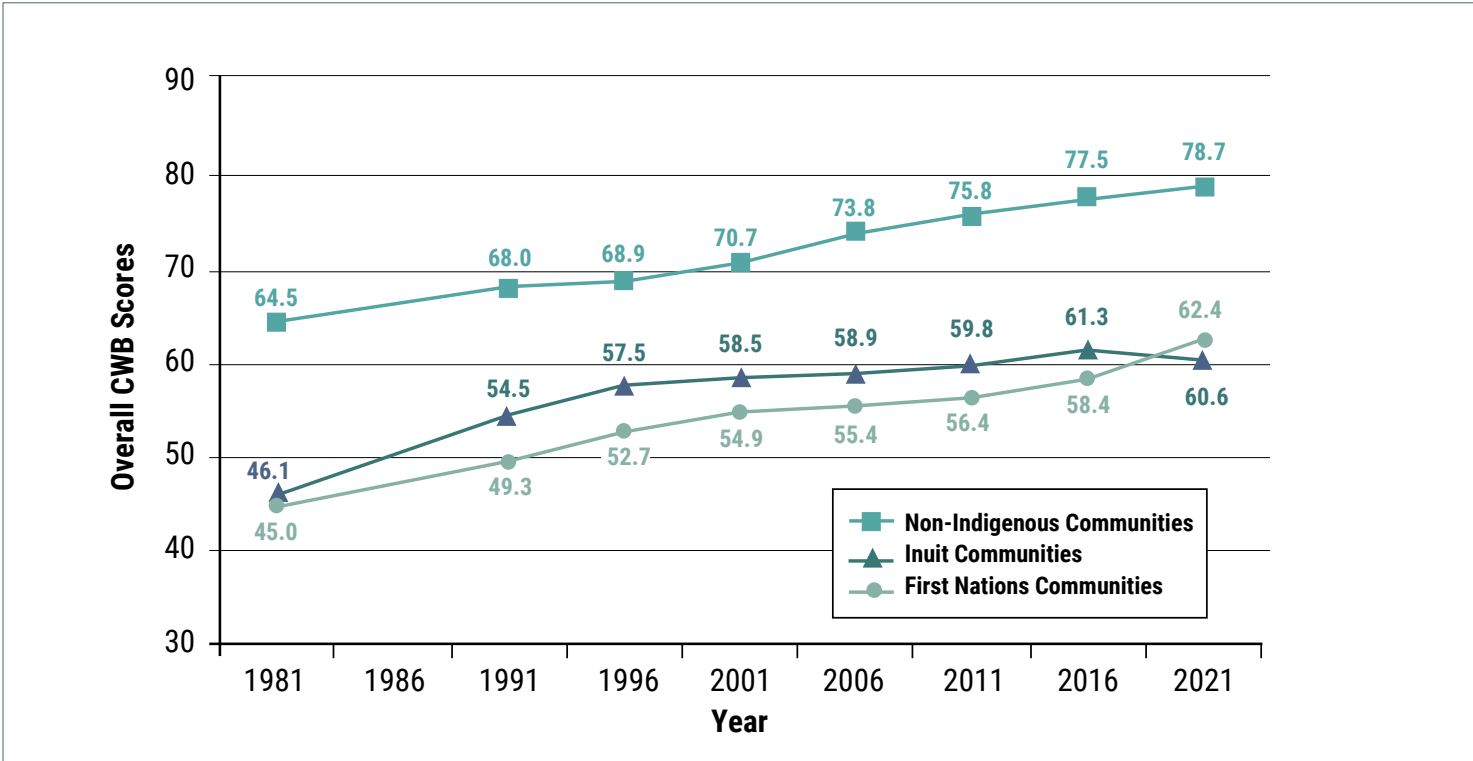
Several observations are immediately apparent from the graph, without need for sophisticated analysis. All lines and line segments trend upwards and to the right, except for Inuit communities in the period 2016–2021. The Canadian economy is a tide that lifts most boats most of the time.

The trend lines for First Nations communities and non-Indigenous communities have run roughly parallel for this 30-year period, with the gap between the two varying between about 15 and 19 points, with no obvious pattern being visible.

One exception to the above is a dramatic improvement in the First Nations score by 4.2 points from 2016 to 2021, closing the gap with non-Indigenous communities from 19.1 to 16.3 points.

This relative increase in the standing of First Nations is of considerable practical importance. Analysts have long speculated about the reasons why reserve communities could not seem to “catch up” with other communities despite many government policies designed to improve conditions for First Nations. Can we identify a cause for the improvement? Is it related to what I have called the Trudeau government's “avalanche of money”? Did government start to do something else right in 2016, the first full year that the Trudeau Liberals took over from the Harper Conservatives?

Figure 2: Overall CWB Scores and Trends, 1981–2021



Source: Canada, 2024c.

Can we look forward to further improvement? The rest of the paper will explore these questions.

Follow the Money

One approach to understanding the improvement from 2016–2021 is to isolate the change in value of each of the four components of the CWB index. Table 4 shows the value of the changes, based on the published data.

Table 4: Changes in the Components of CWB Scores, 2016–2021

Education	2.2
Labour Force Activity	0.9
Income	8.9
Housing	3.9
	15.9

Source: Canada, 2024c.

What stands out in table 4 is the outsized contribution of the income component, even after logarithmic transformation, to the First Nations’ improvement from 2016 to 2021—8.9 out of 15.9 points, or 56% of total improvement, more than the contribution of the other three components combined. In other words, increase in income drove the improvement in the CWB index from 2016 to 2021.

The official interpretation accompanying the data release mentions “pandemic-related government transfers” as a possibly relevant factor in the increase in the First Nations CWB index from 2016–2021 but does not explore that suggestion further. An immediate problem with this hypothesis is that the six main programs conferring COVID benefits were mostly related to earned income, compensating Canadians for being laid off or discharged from their jobs because their employers had to shut down or reduce their operations (Canada, 2023c). It is not obvious why these programs would have had a greater positive effect upon the income of Status Indians living on reserve than upon the

incomes of other people, because Status Indians on reserve had an employment rate of only 47% in 2016, before the pandemic arrived, compared to an employment rate of 76% for non-Indigenous Canadians in the same year (Statistics Canada, 2023). Certainly, some Status Indians on reserve would have benefited from these programs, but they would not have received as high a share as other Canadians with higher pre-pandemic employment rates.

If the COVID hypothesis is not tenable, what would explain the reported increase in First Nations income from 2016 to 2021? Let us look at some other possibilities.

Increases in federal spending on Indigenous programs might translate into higher incomes for First Nations people to the extent that the spending creates jobs on reserve. More money provided by Ottawa means more people hired and higher wages for employees, such as band council and its support staff, teachers and other school staff, nurses and other health-care personnel in clinics, workers in utilities and infrastructure, and employees in many businesses located on reserve. Even though Registered Indians working on reserve do not have to pay income tax, they have many reasons to file returns with the Canada Revenue Agency, such as qualifying for the Canada Pension Plan and other benefits, so higher levels of on-reserve employment and earnings will show up in the income component of the CWB index.

Unfortunately for our purposes, there are no published data on how many of the additional employees authorized by the Liberal government were located on reserve versus working in Ottawa or regional offices. In any case, the increases through 2020 were relatively modest and only restored staffing to the level it had occupied in 2011. However, the sharp increase in employment in 2021 caused by the creation of a second department dealing with Indigenous matters would have contributed to the increase in on-reserve income reported for 2021.

Another hypothesis would concern specific claims, but these are collective in nature, and settlements are paid to First Nations governments, not to individual members. However, initial cash distributions are often made to members. A recent example is the \$1.3 billion Siksika settlement, which provided for a distribution of \$40,000 to each Siksika member within a year and a half of reception of money from

the government (Siksika Nation, 2022). It is said that similar distributions are quite common, even though there is no centralized record-keeping (Mizraei et al., 2021: 501–502). The value of such distributions is normally dissipated quite quickly through the purchase of consumer goods, which may provide a temporary boost in standard of living but does not usually lead to a long-term transformation of a family's economic prospects. The money, moreover, is mostly spent off-reserve, with little effect in building an on-reserve economy (p. 507).

Distributions like this provide for a large amount of cash flowing to both on-reserve and off-reserve members of a First Nation, but that money will not show up, at least directly, in the income component of the CWB index. Statistics Canada derives its income data from forms filed with the Canada Revenue Agency, not from census questionnaires (Statistics Canada, 2022a). Because distributions from specific claims settlements are not considered income, recipients do not have to report them to the CRA, and the government does not issue receipts for tax purposes.

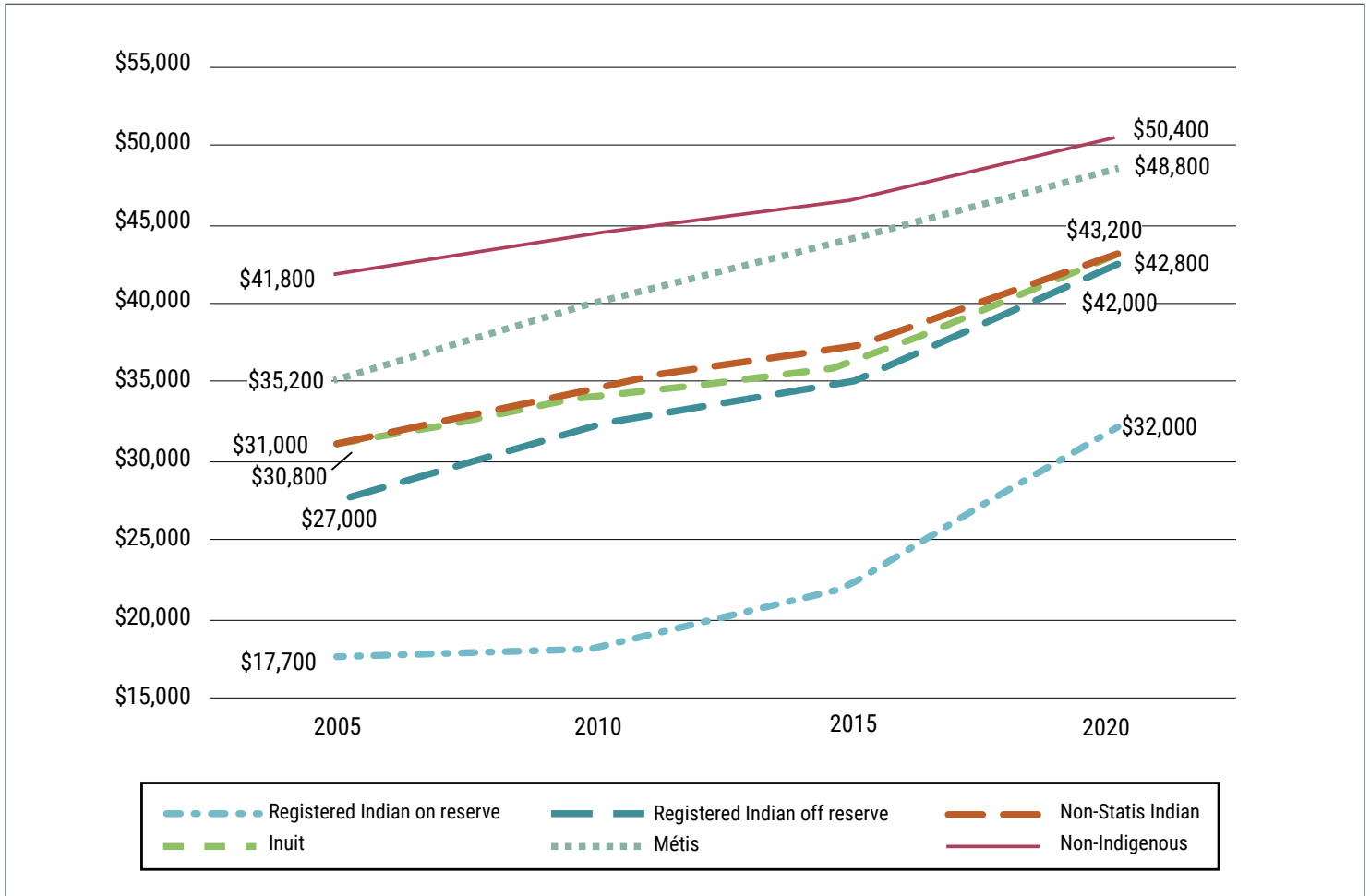
It is possible that there could be some indirect effect on taxable income in specific cases. Suppose, for example, that an on-reserve recipient used his share of the distribution to buy a new truck that allowed him to take a more lucrative job off reserve, on whose earnings he might have to pay income tax, depending on how the CRA applied the connecting factors test (Flanagan, 2023). However, such cases are probably few, and no data are published that could be used to assess indirect effects on the CWB index.

As with distributions from specific claims settlements, class action settlements provide spending money but not taxable income. Hence, there is no direct effect on the CWB index, which depends upon income reported to the Canada Revenue Agency. However, there might be an indirect effect, as discussed for specific claims distributions. The aggregate amounts of these settlements have been made public, but the names of beneficiaries and the payout dates are treated as confidential. Researchers, therefore, have no information about the time and place of impact when the cash amounts are distributed.

A much bigger impact on the income of on-reserve Indians must have come from the Canada Child Benefit (CCB), which came into effect on July 1, 2016, replacing the

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Figure 3: Median Individual Income 2005 to 2020 (Adjusted), Indigenous and Non-Indigenous Populations, Aged 25 to 64, Canada



Source: Canada, 2023b.

previous Universal Canada Child Benefit (UCCB). At the time of its termination in 2016, the UCCB paid families \$1,920 a year for each child under six years of age, and \$720 for each child aged 6–17, both amounts being taxable. The new CCB increased the amounts enormously, up to \$6,496 apiece for children under six, and up to \$5,481 for children aged 6–17. Instead of being taxable, the new benefits were income-dependent, with the first tax-back threshold being about \$30,000 and the second about \$65,000 (CRA, n.d.).

These provisions meant that the CCB was targeted to low-income families, and Status Indians on reserve are the lowest-income group in Canada, as shown graphically in figure 3.

There was an obvious inflection point in 2010 and another in 2016, when the CCB started to take effect. In 2015, before

CCB, the median individual income of non-Indigenous Canadians was about 100% greater than that of Status Indians on reserve; by 2021, the gap had shrunk to 58%.

First Nations people on reserve also have the largest number of children per family. In 2016, about one in four Status Indians living on reserve were under 15, thus giving their parents or guardians eligibility for the CCB, versus one in six non-Indigenous Canadians (Statistics Canada, 2023: Chart 2). First Nations people on reserve also had employment income that was only about half that of non-Indigenous Canadians in 2015, the year before the CCB came into effect—\$17,100 a year versus \$34,000 a year. Thus, reception of the CCB would cause the income of proportionally fewer Status Indians on reserve to reach tax-back levels.

These two factors—a higher number of children and lower employment income—meant that Status Indians on reserve have benefitted more on average from the CCB than other Canadians. Ironically then, the increase in income of First Nations people on reserve has been driven, at least in part, by universal income-support legislation that was racially neutral on its face.

A technical factor that must also be mentioned is that the income component of the CWB index is logarithmically transformed to reduce the impact of high incomes. Since the CCB is taxed back at higher-income levels, its impact in increasing income is relatively greater for people at lower-income levels. Since on-reserve Status Indians tend to have lower incomes, the CCB would have a relatively greater positive impact upon the income component of the CWB index than would a program that created income gains for higher-income Status Indians on reserve.

Own-Source Revenue (OSR)

Own-Source Revenue (OSR) is money derived from bands' business activity or from the taxes and fees they collect from businesses operating on reserve or from non-Indians living on reserve. This is collectively generated money, though distributions are sometimes made to band members. Taylor Jackson and I computed the value of OSR, both in absolute terms and as a percentage of all band income, for 475 bands that had filed audited statements for 2016–17 (Flanagan and Jackson, 2017: 11–14). Using the same source of audited band government statements, Fraser Institute Senior Economist Nathaniel Li updated the data for fiscal years 2018–19 and 2022–23, to be used in this project.

Unfortunately, far fewer First Nations are now publishing audited statements, so we could only make comparisons between fiscal 2018 and 2022 for 260 band governments, whereas data were available for 475 bands in 2016. The Trudeau government did not attempt to amend or repeal the *First Nations Financial Transparency Act* (the Act) (Justice Laws Website, 2013), which requires disclosure of annual audited reports; but it announced that no measures would be taken to enforce compliance (Assembly of First Nations, 2018). We are now seeing the result of non-enforcement.

Because lower compliance with the Act has reduced the database, the following results must be regarded as tentative

(all comparisons are in 2022 dollars to adjust for the effect of inflation):

- Overall revenues for these 260 First Nations increased from \$7.4 to \$9.1 billion, or 28%.
- Government transfer revenues increased from \$4.8 to \$6.4 billion, or 33%.
- OSR, including resource revenues, increased from \$2.6 to \$3.1 billion, or 19%.

So, in these years, First Nations have become relatively more dependent on government transfers. This is a statement about band governments, not about individual First Nation people living on reserve. The slower growth in OSR has not been caused by the introduction of the CCB or by increases in federal spending on Indigenous programs. It is a parallel phenomenon probably caused by factors in the business environment such as natural resource prices and the COVID recession. Nevertheless, it is a trend that should cause concern among those who believe that Reconciliation is best served by greater financial independence of First Nations.

Conclusions

The uptick in First Nations' CWB index from 2016 to 2021 was real and was driven by a marked improvement in the personal income of Status Indians on reserve as compared to non-Indigenous Canadians. The improvement in income is mainly traceable to the Liberal government's 2016 introduction of the Canada Child Benefit (CCB), which is far more generous than the preceding program of child support. The CCB reduced child poverty in general for Canadians (Stabile and Baker, 2021), and it has been particularly helpful to on-reserve Status Indians because they tend to have more children and lower incomes than other Canadians. The positive impact of the CCB is likely to persist because, as a widespread benefit, it will be difficult for future governments to abolish or reduce it. Ironically, then, on-reserve Status Indians have been the greatest beneficiary of non-racial legislation meant to help all Canadian families, except those in the highest income brackets.

The increase in First Nations' personal income was also helped to a lesser extent by the increase in federal spending and civil-service hiring from 2016 to 2021, because an unmeasured amount of that translates into higher levels of on-reserve employment and higher pay for those who get

those jobs. However, soaring federal deficits and the need to move toward budgetary balance may reduce that impact in the future.

Beyond these programs that have obvious links to personal income on reserve, First Nations people have been receiving significant amounts of money from settlements of class actions and specific claims. These amounts may decrease under future governments because the increases since 2016 have resulted from government decisions to facilitate quick and generous settlements rather than contest claims through litigation. Hopefully, future governments, whatever their party affiliation, will start to publish more data about these settlements. Even though tens of billions of dollars are involved, the public is being told nothing about when and to whom class action payouts take place, and how the trust funds that result from specific claims settlements are being used.

Finally, the data on First Nation budgets and Own-Source Revenue (OSR) suggest that, even as the income of Status Indians on reserve has increased, band governments have become more financially dependent on government transfers. These transfers increased more rapidly (33% in real dollars) from fiscal 2018 to fiscal 2022 than OSR (19% in real dollars).

It should be noted, however, that the data to support this last conclusion are not as robust as they should be because the federal government has stopped enforcing the *First Nations Financial Transparency Act*. It would be in the interest of all Canadians, and not least in the interest of First Nation people themselves, for government to resume enforcing the

act so the decision-making of band governments becomes more open to scrutiny (Richards and Krass, 2015).

Backing away from the details and looking at the big picture, First Nations people are receiving more money from the federal government through the CCB. Many observers will applaud the effect of that program in reducing child poverty, but market-oriented observers will believe it would be better still if that money were earned rather than transferred. First Nations people are also receiving billions of dollars, albeit in a scattered way, through the settlement of class actions and specific claims. First Nations governments are also receiving more money through greater appropriations from the federal government. Additionally, they are generating more OSR, but less in proportion to the amounts of money transferred from government sources. The net effect is that First Nations, at least in these years, have become less financially independent and more dependent on government transfers.

Because of its limited application, the CWB does not enable a complete evaluation of the Trudeau government's Indigenous policies. However, it does suggest three findings of great importance that can be expressed in simple terms: Flooding First Nations with money does not necessarily produce improvements in measured well-being.

Improvements in well-being can come from general policies, like the CCB, that are not targeted at First Nations.

First Nations became more, rather than less, financially dependent upon the federal government from 2018 to 2023, the most recent years for which we have data.

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About the Author



Tom Flanagan, senior fellow at the Fraser Institute, is Professor Emeritus of Political Science and Distinguished Fellow, at the School of Public Policy, University of Calgary, and Chair, Aboriginal Futures, at the Frontier Centre for Public Policy. He received his B.A. from Notre Dame and his M.A. and Ph.D. from Duke University. He taught political science at the University of Calgary from 1968 until retirement in 2013. He is the author of many books and articles on topics such as Louis Riel and Metis history, aboriginal rights and land claims, Canadian political parties, political campaigning, and applications of game theory to politics. His books have won six prizes, including the Donner-Canadian Prize for best book of the year in Canadian public policy. He was elected to the Royal Society of Canada in 1996. Prof. Flanagan has also been a frequent expert witness in litigation over aboriginal and treaty land claims. In the political realm, he managed Stephen Harper's campaigns for leadership of the Canadian Alliance and the Conservative Party of Canada, the 2004 Conservative national campaign, and the 2012 Wildrose Alberta provincial campaign.

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